

IMPACT OF SPECIAL INDUSTRIAL PACKAGE ON THE GROWTH OF HIMACHAL PRADESH

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ABSTRACT

The special industrial packages of incentives has granted by the government of India in 7, January, 2003. It has been enhanced by the industrial policy and incentives rules, 2004 which provides more incentives to the prospective and present entrepreneurs in the state of Himachal Pradesh., in the form of tax concessions, concessional rates of electricity duty, special incentives for setting up of industrial units in the backward and tribal regions of the State, financial and non financial incentives for training and development of human capital. The present study revealed that as on 31.03.2015 there are 502 Medium & Large Scale Industries registered in the State having an investment of Rs. 11,300.6lakh and have provided employment to 60,794 persons. In addition, there are 40,029 registered Small Scale Industries having an investment of about Rs. 7,00733lakh and have provided employment to 2, 23,805 persons. A good number of MSMEs have come up particularly in Solan, Sirmour and Una districts of the state which has changed the industrial scenario of the state significantly. Hence, it can be concluded that there is a considerable escalation of industrial units, employment opportunities, Per Capita Income and infrastructure development due to the grant of special incentive package to the state of Himachal Pradesh.

KEYWORDS: Special Package, Industrial Policy, Employment, Infrastructure Development & Investment

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INTRODUCTION

Himachal Pradesh derives its economic potency primarily from agriculture/horticulture and allied activities. Industrialization in the state is a recent phenomenon and achieved force after getting statehood in the year 1971. In order to balance topographical disadvantages and enhance industrial development, special incentives of packages were given to this hilly state of Himachal Pradesh for developing quality industrial infrastructure and encouraging potential entrepreneurs to invest in the state in order to generate more employment opportunities and boost up the economy of the state. As per the statistics, contribution of industries in the gross state domestic product is approximately 16 per cent. As on 31.03.2015 there are 502 Medium & Large Scale Industries registered in the State having an investment of Rs. 11,300.6 lakh and have provided employment to 60,794 persons. In addition, there are 40,029 registered Small Scale Industries having an investment of about Rs. 7,00733 lakh and have provided employment to 2,23,805 persons. The grant of special incentives of package for setting up of industries in the state was notified on 7-01-2003 by center as well as state government in the industrial policy & incentive rules, 2004 has resulted in high investment in both MSE and MLSS in the state on 4-3-2014. The Ministry of Commerce & industries (DIPP) on 4-3-2014 has notified central capital investment subsidy

scheme 2013 under special package for industrial units in the state of Himachal Pradesh. All existing and new industrial units' undertaken significant growth after 7-1-2013 up to 31-3-2017 will be eligible for central capital investment subsidy @ 15 per cent of investment in plant and machinery. Further the cap of amount of subsidy would be available to all new and existing units on considerable expansion located in notified areas as well as to trust industries throughout the state. After the notification of the incentive package by GOI for state of Himachal Pradesh on 7-1-2003, there has been appreciable increase in the number of proposals received for setting up industries in the state.

The primary stress of the Government of Himachal Pradesh is for homogeneous dispersal of industries throughout the State & especially in the industrial corridor increasing from Poanta Sahib to Pathankot all along the foothills. For this purpose, accessibility of good quality infrastructure is very essential to attract industry and make certain that these projects are sustainable in the long run. The Government of Himachal Pradesh, therefore, is laying emphasis on expansion of self-contained industrial area where basic facilities like road, power, sewerage, water and communication etc. are provided. At present, 41 Industrial Areas and 17 Industrial Estates have been established across the state of Himachal Pradesh. Exports have been acknowledged to stimulate economic growth, especially in the age of opening up of our economy, its liberalization structure reforms within the economy. A balanced growth in exports is, however, not possible in the absence of suitable and sufficient infrastructure. Hence, high quality infrastructure as comparison to international standards is indispensable for facilitate unhindered production, cut down, the cost of production, cut down the cost of production and make our export internationally viable. Therefore, the support of state for developing export infrastructure and other allied activities scheme which has been initiated by the Ministry of Commerce and Industry, Department of Commerce, Government of India from the year, 2002-03 had been made full use of by the state government in developing infrastructure for export. During the year, 2014-15, an amount of Rs. 527 lakh was received from the Government of India under the scheme 3, which is being spent on enhancement of roads to remove transport bottlenecks and on power infrastructure to provide ample and continuous power supply to exporting industrial units. With view to develop and promote entrepreneurship, a center for entrepreneurship development has been established at Parwanoo in association with the Government of India in Himachal Pradesh. To generate more employment opportunities in various employment generation programmes, rural industrial/artisan programmes like Prime Minister Employment Generation Programme (PMEGP), Rural Engineer Based Training Programme etc. are being conducted in various districts of the Sate.

REVIEW OF LITERATURE

Neeti (2011), analyzes the role of infrastructure in the context of development of a nation particularly in the case of third world countries. It examines the nature and extent of infrastructural development that has taken place in Andhra Pradesh and its three regions as a result of the concerted efforts of the Government of Andhra Pradesh. Study concludes that coast al Andhra has registered highest level of infrastructural development compared to that of Telangana and Rayalaseema regions. Government should identify the backward areas in terms of infrastructural development and provide them all there required infrastructural facilities on priority basis to achieve rapid balanced development in Andhra Pradesh.

World Bank (2009), World Development Report2009, 'Reshaping Economic Geography' highlights the fact that the world is not flat. Development is neither smooth nor linear at any geographical scale. Growth comes earlier to some places then to others. Globalization and privatization may rearrange production with countries, leaving people concentrated in places no longer favoured by markets. Geographic differences in economic activities encourage migration from lagging areas, concentrating people, including poor in leading areas. But geographic unevenness in living standards, by creating or

extending divisions within countries, can also lead to conflicts, slowing social and economic development.

Rajaraman et al (1999), a study conducted in Madhya Pradesh, reveals that fiscal incentives have a statistically insignificant impact on large and medium investment in Madhya Pradesh. on the contrary, the study discovered that abundant power was an imperative factor for attracting investment into the state during the eighties, stressing the importance of infrastructure in firm location decisions.

Morisset and Pirnia (2000), study reveals that tax incentives neither make up for serious deficiencies in a country's investment environment nor generate the desired externalities. Long term strategies to enhance human and physical infrastructure and where necessary, to rationalize government policies and measures are more likely than incentive to attract authentic long term investment. But more recent evidence has shown that when other factors are more or less equal, fiscal incentives in one location may have significant effect on investors' location choices. On the other hand, even if tax incentives were efficient, the costs might outweigh the benefits. Tax benefits are not only likely to have a negative direct effect on fiscal revenues but also often create considerable opportunities for illicit behaviour by tax administrators and companies. This phenomenon has become more critical in budding economies, which faces more serve budgetary constraints and fraud than industrial countries do.

RESEARCH DESIGN

Research design is partly descriptive, partly exploratory and partly casual. For this study, data and information has been collected with the help of Books, Magazines, Annual Reports, Newspapers, Research Articles, and Research Journals, etc. The secondary data has been used from various sources to analyze the Special Industrial Package on the Growth of Himachal Pradesh. Data collected from the secondary source has been analyzed by applying simple average and percentage method.

Objectives of the Study

- To study the special industrial package of incentives provided by Central as well as State Government to Himachal Pradesh.
- To study the infrastructure development in the state under special package of incentives.
- To analyze the impact of special industrial package of incentives on growth of investment, employment and number of units in Himachal Pradesh.

Incentives to Industries by Govt. of India as well as Govt. of Himachal Pradesh

A special incentive has been provided for Industry in the new industrial policy in terms of fiscal incentives such as sales tax, electricity duty concessions. concessional central sales tax at a rate of 1.5 per cent of the taxable turnover of such goods with effect from 1st April, 2014-15 for a period of five years or till the implementation of the goods and services tax, whichever is earlier shall be leviable on the goods manufactured by existing industrial units which have commenced commercial production on or before 31-03-2014-15. These incentives will not be provided to industrial units engaged in the production of breweries, distilleries, non-fruit based wineries and bottling plants. Central Sales Tax at a concessional rate of 1% shall be levied on the goods manufactured by new industrial units commencing commercial production on or after 1st April, 2013 with effect from the date of commencing commercial production. For industrial units which have commenced commercial production on or before 31.03.2014-15 and which carry out substantial expansion on or after

1st April, 2013 this incentive will be admissible with effect from commencing commercial production of the expanded capacity, for a period of five years or till the implementation of the goods & services tax, whichever is earlier. Except for industries listed in the negative list new industrial units set up after the appointed day as specified under these Rules shall be entitled to the incentive of deferment of 100% VAT for a period of 8 years in category 'B' areas and for a period of 5 years for such units in category 'A' areas. Additional incentives have been provided for thrust sector industries in 'B' & 'C' category blocks in terms of allotment of land at concessional rates & interest subsidy. These include out of turn allotment plots/land/sheds in industrial areas/estate, exemption from payment of state excise duty for a period of seven years for unit manufacturing wine locally produced fruits and interest subsidy @ 5 per cent p.a. with the ceiling of Rs. 2 lakhs p.a. for a period of 3 years for horticulture produce, vegetable produce, maize based and herbal based industries.

Tax Incentives available to the units in category "C" block (Partial Tax Exempted Zone) all new industrial unit(s) set up after the date of this notification including existing industrial units which have commenced production upto the date of notification and undergo substantial expansion after the date of this notification (only after prior approval of Director Industries or any other officer authorized by him) in the category "C" areas of the State, as notified from time to time, shall be exempted as follows from payment of State taxes (excluding levies in the shape of cess, fees, royalties etc.) for a period of 7 years from the date of commencement of commercial production or the date of notification by the concerned Department(s), whichever is later. The total amount to be so exempted shall be limited to 80% and 60% of the total fixed capital investment i.e. investment made in building, plant & machinery in tribal areas and backward panchayats respectively.

Additional Incentives to Special Category Entrepreneurs

Special category entrepreneurs refers to the entrepreneurs belonging to the Scheduled Castes, Schedule Tribes, Women, Ex-servicemen, Physically Handicapped persons (with a disability of more than 50%), Below Poverty Line (BPL) family category who set up new industrial unit(s) themselves. Such women entrepreneurs are entitled to additional concessions/ facilities as mentioned below:

- Reimbursement of 90% operating costs incurred towards the cost of preparation of Project Feasibility Report with a ceiling of Rs. 25, 000 in each case.
- 100% subsidy on the carriage and setting up cost of the plant & machinery in the particular unit.
- Special Investment Subsidy @ 10% on Fixed Capital Investment (FCI) subject to a maximum of Rs. 1 Lakh.
- Interest subsidy @ 5 % on term loan taken from the Financial Institution (s) as per original reimbursement schedule with a ceiling of Rs. 50,000 p.a. for a period of 3 years. This interest subsidy will be given to 'Specified Category of Activities' with Fixed Capital Investment (FCI) up to Rs. 25 Lakh. No interest subsidy will be rewarded on defaulted installments and the period of non-payment will be taken for ascertaining the ceiling of 3 years viz. Interest subsidy will be 20 admissible for the first 3 years of the original repayment schedule finalized by the Financial Institution at the time of approval of loan.

Industrial Services and Infrastructure Development

In order to provide services and facilities to the existing and potential entrepreneurs in Himachal Pradesh, District Industries Centers (DIC's) have been set up in all districts of the State. In addition to this, 5 Single Window Clearance

Agencies (SWCA) have been established in industrial areas of Baddi, Parwanoo, Kala Amb, Paonta Sahib, & Gwalthai which offer services and facilities required by the different industrial units under the single roof. Moreover, to provide umbrella assistance to existing and new ventures, the State government has also established a State Level Single Window Clearance and Monitoring Authority (SLSWC&MA).

At present Himachal Pradesh has about 41 industrial areas established at Bilaspur, Gwalthai, Garnota, Hatli, Hamirpur, Nadaun, Nagrota Bagwan, Sansarpur Terrace, Nagri, Dhaliara, Bain Attarian, Badhal, Raja Ka-Bag, Nargala Jawali, Shamshi, Reckong Peo, SauliKhad (Mandi), Ratti, Bhambla, Maigal, Shogi, Maindli, Jais, Jubber Hatti, Paonta Sahib, Kala Amb, Baddi, Barotiwala, Chambaghat, EPIP Baddi (Phase I & II), Banalgi, Mamlig, Katha Bhatoli, Mehatpur, Amb, Tahliwala, Gagret, Jeetpur Bheri and Basal.

In addition to this, 15 industrial estate have been established with the infrastructure facilities at Sultanpur, Parel, Shivenagari (Holi), Kangra, Dhera, Jawali, keylong, Saigloo, Pali, Pandranu, Raighat, Sunda Bhonda, Parwanoo, Chambaghat and Dharampur.

Growth Patterns of Industrialization in Himachal Pradesh

After the independence of India, Himachal Pradesh was principally an agrarian economy. Majority of other items of daily use were imported from different countries of the world. During the nineties, the growth rate was more or less stable and decade projected an average annual growth rate of 5.7 percent, which was at par with the national level. The speed of industrial development has amplified after the grant of special package of incentive by Central Government for setting up of industries in the State which was notified on 07.01.2003 together with the package of incentives provided by the State Government of Himachal Pradesh. Industrial growth and development is one of the most important indicators of the economic development of a region and State. The industrial growth largely depends on the expansion and establishment of micro, small, medium and large scale industries. It helps in providing huge employment opportunities to the individuals of State and improves their standard of living.

Table 1: Growth Patterns of Industrialization after Special Package of Incentives in Himachal Pradesh

Year	Units (Nos.)		Total	Investment (in Lakh)		Total	Employment (Nos.)		Total
	Micro & Small Scale Units	Large & Medium Scale Units		Micro & Small Scale Units	Large & Medium Scale Units		Micro & Small Scale Units	Large & Medium Scale Units	
Up to 2001-02	29479 (99.35)	193 (0.65)	29672 (100)	68548 (96.65)	2374.59 (3.35)	70922.59 (100)	126594 (81.00)	29702 (19.00)	156296 (100)
2002-03	697 (99.57)	3 (0.43)	700 (100)	2429.48 (99.86)	3.48 (0.14)	2432.96 (100)	3277 (96.44)	121 (3.56)	3398 (100)
2003-04	663 (97.79)	15 (2.21)	678 (100)	3708.48 (99.07)	34.94 (0.93)	3743.42 (100)	3769 (83.18)	762 (16.82)	4531 (100)
2004-05	913 (96.31)	35 (3.69)	948 (100)	8891.44 (96.71)	302.87 (3.29)	9194.31 (100)	6412 (64.87)	3473 (35.13)	9885 (100)
2005-06	914 (93.46)	64 (6.54)	978 (100)	12217.3 (96.06)	501.59 (3.94)	12718.89 (100)	6611 (58.94)	4606 (41.06)	11217 (100)
2006-07	952 (95.39)	46 (4.61)	998 (100)	45272.8 (98.66)	615.26 (1.34)	45888.04 (100)	10665 (70.01)	4568 (29.99)	15233 (100)
2007-08	842 (97.79)	19 (2.21)	861 (100)	70637.3 (99.32)	482.64 (0.68)	71119.97 (100)	11302 (85.46)	1923 (14.54)	13225 (100)
2008-09	909 (95.18)	46 (4.82)	955 (100)	73795.5 (98.48)	1141.03 (1.52)	74936.51 (100)	10939 (72.14)	4225 (27.86)	15164 (100)
2009-10	1032 (97.82)	23 (2.18)	1055 (100)	75320 (98.25)	1343.82 (1.75)	76663.83 (100)	10011 (78.74)	2703 (21.26)	12714 (100)
2010-11	963 (97.27)	27 (2.73)	990 (100)	96539.4 (97.85)	2118.33 (2.15)	98657.69 (100)	10002 (72.78)	3740 (27.22)	13742 (100)
2011-12	856 (98.17)	16 (1.83)	872 (100)	61909 (97.05)	1879.29 (2.95)	63788.29 (100)	7732 (72.17)	2981 (27.83)	10713 (100)

Table 1: Contd.,									
2012-13	798 (99.13)	7 (0.87)	805 (100)	96332 (99.78)	211.69 (0.22)	96543.69 (100)	9298 (96.48)	339 (3.52)	9637 (100)
2013-14	630 (99.53)	3 (0.47)	633 (100)	37419 (99.57)	161.21 (0.43)	37580.21 (100)	5230 (86.96)	784 (13.04)	6014 (100)
2014-15	279 (98.24)	5 (1.76)	284 (100)	47713 (99.73)	129.86 (0.27)	47842.86 (100)	1963 (69.36)	867 (30.64)	2830 (100)
Total	39927 (98.76)	502 (1.24)	40429 (100)	700733 (98.41)	11300.6 (1.59)	712033.2 (100)	223805 (78.64)	60794 (21.36)	284599 (100)

Source: Annual Administration Reports, Industries Department, Government of Himachal Pradesh.

Note: Figures in parentheses denote percentages.

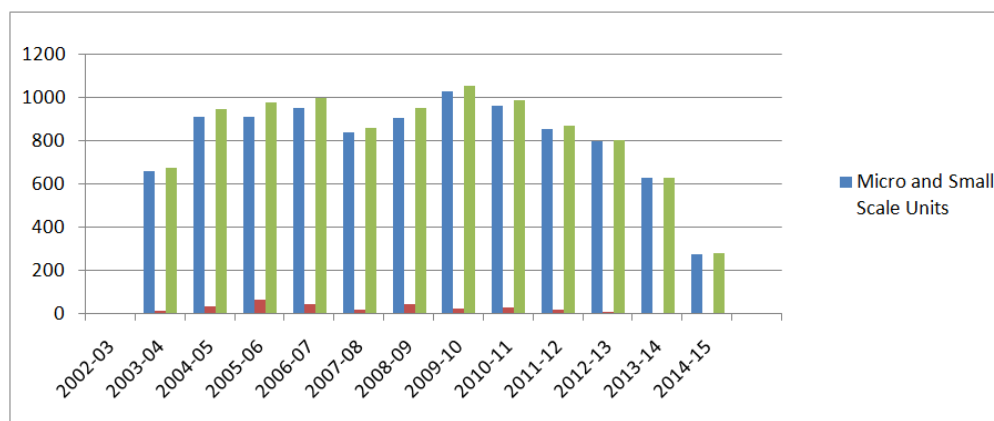


Figure 1: Impact of Special Incentives of Package on No. of Units

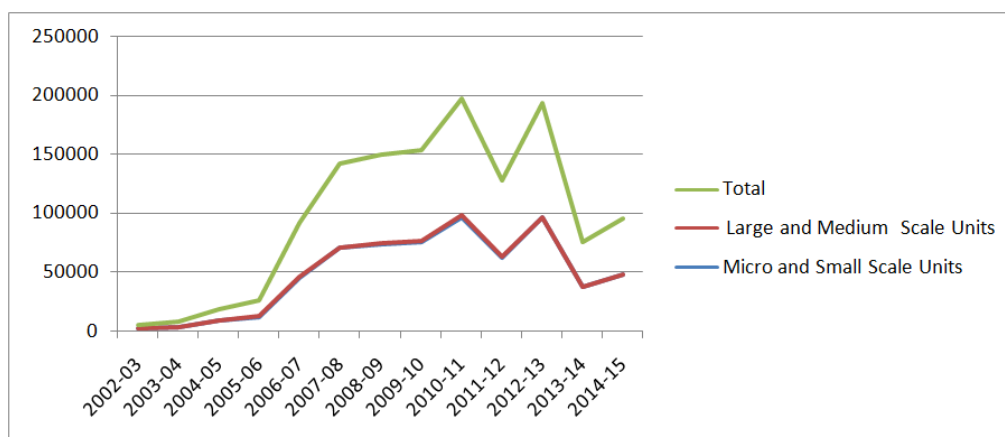


Figure 2: Impact of Special Incentives of Package on Investment

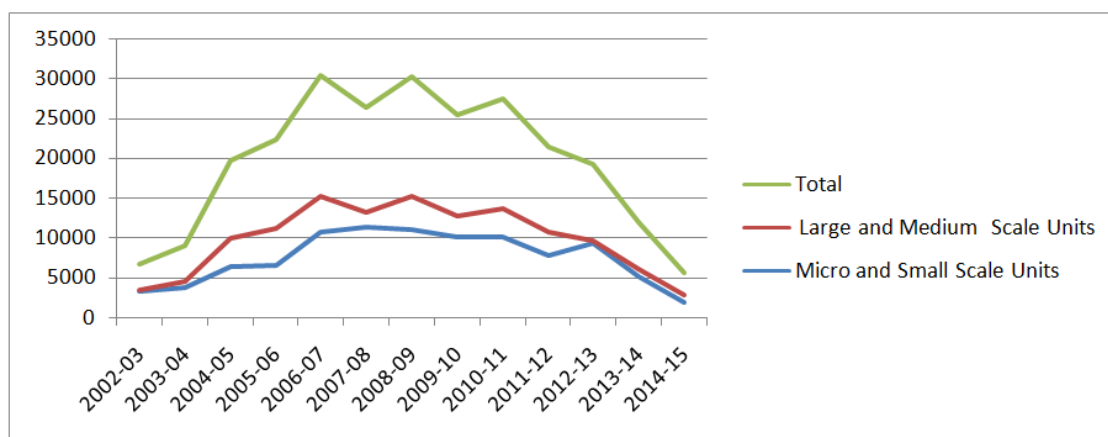


Figure 3: Impact of Special Incentives Package on Employment

Figure 1 reveals that numbers of micro and small-scale units are increasing continuously after incentive package in Himachal Pradesh. The number of large and medium units, which were negligible up to 2000-01, has increased to 64 in 2005-06. In comparison to 2002-03 in 2009-10 there is 50 per cent increase in industrial units set up during the year. Further figure 2 discloses that Employment in different micro, small, medium and large units was increased with 76.98 per cent from 2002-03 to 2013-14. In figure 3 there is 1863.91 per cent increase in investment in micro and small scale industries in 2014-15 in comparison to 2002-03. There is 37 times increase in investment in medium and large scale industries. Although, there is slight decrease in establishment of new industries and their employment generation due to the non revival of incentive package after January 2013.

CONCLUSIONS

Industrialization plays a fundamental and dynamic role in escalation of national economy. Effective industrial expansion is indispensable for successful economic development. It is predominantly a means of improving the situations of work and living standard of oppressed masses. Industrialization in Himachal Pradesh, in fact is not more than a decade old phenomenon. Accessibility of basic and industrial infrastructure has been enhanced significantly. Moreover, successful implementation of various special packages of incentives and concessions has recently made an impression in industrial development of Himachal Pradesh. The State Government has been primarily following the planning strategies progressed by the Central Government of India. There are lot of incentives in form of subsidies, tariffs and concessions given by Government of Himachal Pradesh and Central Government of India. The special package of incentives approved by the Government of India in 7, January, 2003 was enhanced by the industrial policy and incentive rules, 2004 which provide more motivation to the potential and present entrepreneurs in the state such as; tax concessions, concessional rate of electricity duty, special incentives for establishing industrial units in the backward and tribal area of the state also incentives for training and development of man power in the state. Infrastructure has a positive crowding-in effect on industrial development. In fact, lack of cost-competitive infrastructure is one of the most critical factors constraining the competitiveness in special category states. Up to 2002-03 to 2014-15, the number of industrial units increased from 29,672 to 40,429 (36.25%), employment from 156296 persons to 284599 (82.08%) and investment from Rs. 70922.59 lakhs to Rs. 712033.62 lakhs (903.9%). This highlights the impact of incentive package on the development of economy and also for future accomplishments.

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